



Chairman's Statement



To all shareholders,

On behalf of the Board of Directors, I am pleased to announce the audited results of Lung Cheong International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 March 2003.

For the financial year 2002/03, the Group continued to perform satisfactorily and reported a turnover of HK\$717 million, representing a rise of 9.0% against HK\$657 million recorded in the previous year. Profit attributable to shareholders amounted to HK\$33 million against last year's figure of HK\$31 million, a growth of 4.3%.

The Board has recommended a final dividend of HK0.75 cents (2002: HK0.5 cents) per ordinary share for the year, subject to the approval of shareholders at the forthcoming annual general meeting of the Company. Together with the interim dividend of HK0.25 cents (2002: HK0.25 cents), total dividends for the year under review will amount to HK1.0 cents per ordinary share (2002: HK0.75 cents).

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BUSINESS REVIEW

Fiscal 2002/03 presented the Group with multiple challenges in particular the slow recovery of the United States ("U.S.") economy and the war in the Middle East, further aggravated by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") at the end of the year.

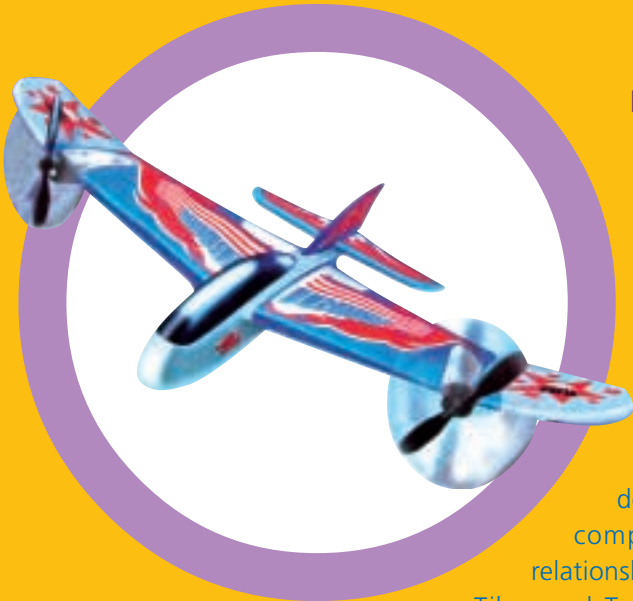
Despite the negative trading climate, the Group's ongoing commitment to strengthening our original equipment manufacturing ("OEM") never ceased. Thanks to our dedicated and continuous efforts to produce quality and price competitive products while maintaining a close working relationships with our major customers such as Mattel, Taiyo, Little Tikes and Tomy, just to name a few, the Group continued to gain support from these international renowned toy companies.

The Group's creative section, Standard Tooling and Products Co. Limited ("STP") continued to perform well throughout the year, capitalizing on our established design and engineering capabilities in "sea" and "land" radio control ("R/C") toys, a whole new range of innovative radio control planes were developed for our OEM customers. These R/C "air" planes were added to the Group's sophisticated R/C products such as mini formula one and trains for a major Japanese entertainment company.

During the year under review, the Group had to deal with extreme ordering pattern by OEM customers in a price sensitive environment. The Group's ability to improve logistics management and procure lower cost materials, and most importantly our engineering capabilities to design products to meet stringent cost targets, enabled us to manage these challenges well. STP's innovation enabled the Group to achieve stable operating margins and solid results from our core OEM business.

Our diversification into Own Brand Manufacturing ("OBM") business with the strategic acquisition of Kid Galaxy's ("KG") 60% interest in early 2002 received encouraging response. The acquisition enabled the Group to further expand the established "Bendos" brand in U.S. specialty toy and gift markets. During the year, KG successfully penetrated the sports market with the introduction of major sports licensed Bendos in particular the National Hockey League ("NHL") figures.

We aimed to maximize synergies of the Group's engineering and manufacturing capabilities with KG's design and marketing expertise to produce more product range with higher margins. Since the Group's involvement in KG, the Bendos range has expanded but the major success during the year, was the creation of two new brands namely "KG Racers" and "My First R/C" radio control toys for the specialty toy market. The direct result of these new introductions enabled KG to expand beyond the specialty stores to major retail chains as well as obtaining greater exposure within the specialty trades. In view of these successes, the Group took the initiative to increase our stake to 100% in December 2002.





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The immediate success of the marriage of the Group and KG were recognized by winning of the industry respected "Dr. Toy" and "Oppenheimer" awards. KG Racers Automites being a finalist for 3 major awards of the American Toy Industry Association ("TIA") including the "2002 Boy Toy of the Year", further enhancing the Group's position in the toy industry.

Overall, the Group performed in line with our corporate strategies. OEM remained the major contributor but OBM showed positive growth signs. We expect our brands to excel further in the coming years.

PROSPECTS

The SARS outbreak and the Iraqi war in the early stage of our new financial year created uncertainties for all markets. Fortunately, major toy exhibitions were held well before these unfavourable incidents, further it happened during our low season, thus minimizing the Group's exposure. Bearing unforeseen circumstances, we expect these to have a minor effect on forthcoming results.

For the coming year, the Group will continue to manage its production, supply chain and logistics capabilities efficiently due to foreseeable extreme ordering pattern from its customers. The Group will have to better navigate our warehousing facilities in China, Indonesia and the United States in order to fulfill the expected shortened purchase orders from customers.

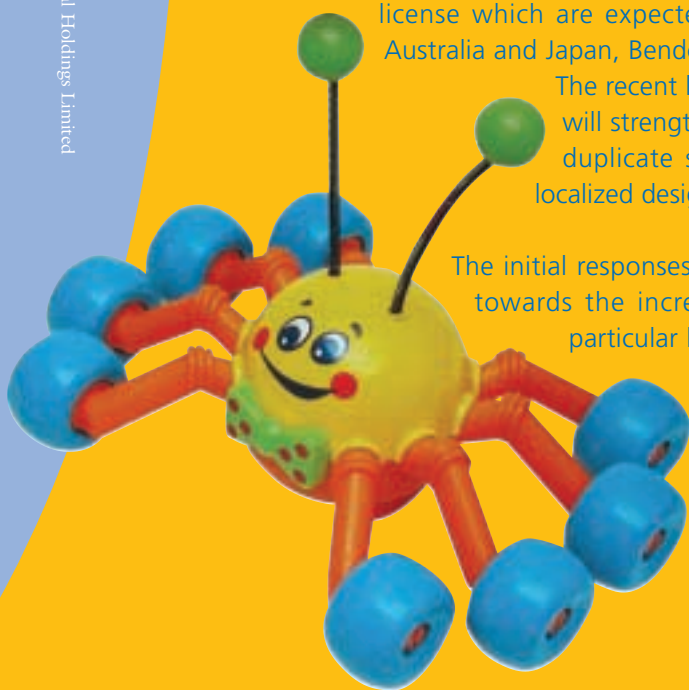


Prior to year end, the Group has demonstrated our commitment to strengthen production capabilities through increased investment in enhancing our manufacturing and engineering facilities. New machinery and equipments were added to the STP and Dongguan factory. We expect these new additions to improve the Group's operational efficiencies.

Taking advantage of Bendos' well-established brand and foundation built in the U.S., the Group will expand into new territories. In addition to Bendos figures, KG has added R/C Zamboni to its NHL license which are expected to perform well in the new financial year. Following Australia and Japan, Bendos have successful penetrated into part of Europe and Asia.

The recent launch of Australian Football League ("AFL") licensed figure will strengthen the Bendos image down under. We hope to be able to duplicate similar successes elsewhere with additional licenses and localized designs.

The initial responses at the toy fairs in New York, Nuremberg and Hong Kong towards the increased KG range and the Bendos R/C "Bumper Car" in particular have been promising. Again, this product demonstrates the successful merger of Lung Cheong's technical expertise, with Bendos' versatility. KG Racers' new range of "Musclemites" and "Insectimites" are expected to profit from the foundations established and popularity set by "Automites" in the coming financial year.



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Sales and marketing strategies for Mainland China had to be re-evaluated in view of the recently announced Closer Economic Partner Arrangement ("CEPA") policy and SARS situation. The Group's plan to set up directly owned and operated retail outlets has been delayed to incorporate benefits expected from the CEPA. Meanwhile, the Group's 400 consignment counters are to be upgraded and renovated to prepare for the introduction of Bendos and portray a new "Kid Galaxy" image. Newly acquired license, along with TV animation, is in place awaiting approval from the Chinese authority.

Leveraging its "sea", "land" and "air" R/C technical knowhow, STP has developed a whole new range of R/C products for OEM customers with certain ideas being allocated to KG OBM business. These plus innovative additions are expected to contribute to the Group's forthcoming results. The Group will continue working with international invention companies to complement STP's creative team. In addition, the Group will consider acquiring product lines suitable for Kid Galaxy's sales channel.

Depending on the resilience of consumer demand in the world's markets, we expect steady growth in revenues and recurrent profits in the 2003/04 financial year. Over the next three to five years, as our new initiatives come to fruition, we expect a more rapid and broadly based growth path, producing much stronger financial results that will enable us to reward our shareholders more fully for their supports during the past few years.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to my fellow directors and colleagues for their contribution to the Group throughout the year. I would also like to take this opportunity to express my appreciation to our shareholders, investors and financiers for their unfailing support and continuing confidence during the past year and in the future.



Leung Lun
Chairman

22 July 2003

